Raising taxes on the well-off would pay for nine days of spending.

By ROB PORTMAN

The dangers of the "fiscal cliff" are by now well known. Most agree that the year-end $500 billion in tax increases and $110 billion in arbitrary, across-the-board discretionary spending cuts, including defense, must be averted to avoid plunging the U.S. economy back into recession. But how the danger is averted is important. To keep from getting right back on another cliff, President Obama and Congress must address the underlying problems of excessive spending and weak economic growth.

Washington needs to pursue structural reforms in the country's important but unsustainable entitlement programs and in an inefficient, outdated tax code. By doing so, lawmakers can responsibly avoid the immediate cliff while addressing the long-term fiscal crisis and spurring job creation.

In January 2010, President Obama described the challenge well: "The major driver of our long-term liabilities . . . is Medicare and Medicaid and our health-care spending. Nothing [else] comes close."

The nonpartisan Congressional Budget Office agrees. According to the CBO, virtually 100% of the projected increase in budget deficits over the next 75 years comes from rising Social Security, Medicare, Medicaid and other mandatory spending.

The CBO projects that as the economy recovers, revenues will exceed the historical average of 18% of gross domestic product, even if all 2001 and 2003 tax cuts are extended. Federal spending, meanwhile, already exceeds its historical average of 20% of gross domestic product and is projected to rise to 40% within three decades. Much of this dramatic increase in spending will be the result of adding 77 million baby boomers to a Medicare system that, for the typical retiree, provides benefits of $3 for every $1 paid into the system.

Taxes cannot be raised high enough to chase the enormous spending growth projected—the math simply does not work. That is why House and Senate Republicans last year voted for a budget to begin reining in entitlements and closing the deficit.

President Obama's plan to deal with the fiscal cliff includes raising taxes on individuals and small businesses that make over $200,000 or, jointly, $250,000 a year. He has argued that we should repeal the 2001 and 2003 upper-income tax cuts because they are to blame for much of the increase in the deficit since 2001.

There is a continuing debate over whether and how to raise taxes on small businesses that pay their taxes as individuals and on those individuals earning more than $200,000.

However, CBO and Tax Policy Center data together show that only 4% of the $12 trillion swing from projected surpluses to actual deficits from 2002 through 2011 resulted from the upper-income tax cuts. Two recessions and soaring government spending were the main factors.

Ending all the upper-income tax cuts would pay for just nine days of annual spending. Social Security and health entitlements will cost 27 times more than the revenue from ending those tax cuts over the next decade.

Still, negotiations require give and take, so Republicans have put revenues on the table. For instance, during the fall 2011 bipartisan super committee negotiations, Republicans (using the general Bowles-Simpson model of $3 in spending cuts for every $1 in new revenue) offered $250 billion in new revenues with pro-growth tax reform and entitlement savings. That summer, House Speaker John Boehner offered new tax-reform revenues in return for serious entitlement reforms, and he has continued to look for ways to forge bipartisan consensus. Democrats, however, have rejected all offers and demanded $1 trillion or more in tax increases without a commitment to structural entitlement reform and tax reform.

President Obama has called for a "balanced" solution of tax increases and entitlement reforms. Yet at this point he is essentially re-offering his budget from last February—a proposed $1.6 trillion in tax increases and virtually zero net spending savings. The CBO says the president's budget actually increases spending by $1 trillion over the decade, as its modest entitlement savings would be overwhelmed by new spending. Higher taxes for more spending isn't the kind of balance that Americans expect.

It should surprise no one that this unbalanced approach in the president's budget was rejected 99-0 in the Senate in May and 414-0 in the House in March.

Tweaking Medicare and Medicaid eligibility rules, benefits and payment rates may save some money in the short run, but it won't sufficiently slow the long-term growth of these programs caused by their outdated design. Reforms should not merely squeeze health beneficiaries or providers but should rather reshape key aspects of these programs to make them more efficient, flexible and consumer-oriented.

Especially in this weak recovery, the president's demands for new tax revenues must be met in the most pro-growth way possible. Instead of merely piling higher tax rates on top of our inefficient tax code, the president should agree to join with Congress in pursuing individual and corporate tax reform, including eliminating outdated preferences that often benefit the well-connected. A simpler, fairer tax code for everyone will also increase productivity, thus creating badly needed jobs and economic opportunity.

Avoiding the immediate fiscal cliff is critical to avert a recession and more job loss, but let's also take the opportunity to address the underlying problems causing our steep deficits. President Obama has said he is for tax reform and promises not to "kick the can down the road" on entitlements. Republicans are eager to work with him on both. By working together, both parties can spare America's children from a national debt that now tops $130,000 per household—and do it in a way that helps bring back jobs.

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